1975 Annual Report Rapport Annuel Jährlicher Report Reporte Anual 年報

AR78

EMCO

Financial Summary

Dollars in thousands except for shares

	1975	1974
Sales	**$175,834**	172,550
Earnings before extraordinary items	**$ 6,564**	8,940
Extraordinary items	**228**	321
Net earnings	**$ 6,792**	9,261
Per common share:		
Basic earnings:		
Before extraordinary items	**$ 1.45**	2.00
Including extraordinary items	**1.50**	2.08
Fully diluted earnings:		
Before extraordinary items	**1.39**	1.91
Including extraordinary items	**1.43**	1.97
Capital expenditures	**$ 4,096**	3,054

Our Cover

Emco in any language means innovation, engineering excellence and dependable service. The languages on the cover indicate the countries where Emco has established plants: England, France, Germany, Japan, Australia, Brazil, the U.S.A. and Canada. Products from these plants reach 100 countries through a worldwide network of representatives.

Emco entered 1976 with a strong backlog of orders, and we are moving well towards our sales and earnings objectives. With increased operating capabilities, expanding product and distribution bases, and certainly an excellent team of people at all levels, we are fully confident of success through the year.

Acknowledgements

At the annual meeting held in May last year, Dr. J. Psarouthakis was elected to our Board of Directors. Dr. Psarouthakis is vice-president, international, of Masco Corporation, and his joining us has been a valuable asset to Emco.

We acknowledge Masco's support, and particularly applaud their role in the transfer of their ownership of Delta Faucet of Canada to Emco. Their agreement to this change amply demonstrates their firm commitment to the 'principles of significant benefits to Canada' as perceived in the Federal Government's Foreign Investment Review Act, and it also demonstrates their confidence in Emco's future.

We thank our employees around the world for their outstanding service, which, in this particularly difficult year, was a source of great strength to the company.

C. N. Chapman
President and
Chief Executive Officer

February 27, 1976

Emco Limited

Directors

John W. Adams, F.C.A.	*London, Ontario Executive Vice-President and Treasurer, Emco Limited*
C. Norman Chapman	*London, Ontario President and Chief Executive Officer Emco Limited*
W. Harold Evans	*Toronto, Ontario Retired Chairman Honeywell Limited*
Peter J. Ivey	*London, Ontario President Cambarex Investments Limited*
Frederick W. P. Jones	*London, Ontario Business Consultant*
Wayne B. Lyon	*Taylor, Michigan Executive Vice-President Masco Corporation*
Ralph S. MacLean	*London, Ontario Vice-President Plumbing and Industrial Group Emco Limited*
Richard A. Manoogian	*Taylor, Michigan Chairman of the Board Emco Limited President Masco Corporation*
Edwin C. Phillips	*Vancouver, British Columbia President Westcoast Transmission Company Limited*
Dr. John Psarouthakis	*Taylor, Michigan Vice-President Masco Corporation*
Arman R. Simone	*Detroit, Michigan President Simone Corporation*
Robert W. Stevens, Q.C.	*Toronto, Ontario Partner Blake, Cassels & Graydon*
David B. Weldon	*Toronto, Ontario Chairman of the Board Midland Doherty Limited*

Officers

RICHARD A. MANOOGIAN	*Chairman of the Board*
C. NORMAN CHAPMAN	*President and Chief Executive Officer*
JOHN W. ADAMS, F.C.A.	*Executive Vice-President and Treasurer*
JOHN G. BERESFORD	*Vice-President, Engineered Products Group*
RALPH S. MacLEAN	*Vice-President, Plumbing and Industrial Group*
STUART F. SMITH	*Vice-President, General Manufacturing Division*
A. ROBERT MARTIN, F.C.A.	*Secretary and Vice-President, Emco Wheaton (International) Limited*
W. WESLEY DeSHANE, C.A.	*Comptroller and Assistant Secretary*

To Our Shareholders

Emco's 1975 accomplishments, we are pleased to report, were significant and our sales reached an all-time record. At $176 million, they were 2% over 1975 sales. Net earnings, however, declined to $6,792,000. On a fully diluted basis, and including extraordinary items, this amounted to $1.43 per share, as compared with $1.97 in 1974.

Our performance in 1974 was, of course, outstanding and any comparison with it must take into account the soft demand and economic uncertainties that business, world-wide, experienced in 1975. At Emco, we, unfortunately, had to endure a 27-week strike at our main plant in London, Ontario, which adversely affected our planned earnings and market penetration in Canada.

Program For Growth

Continuing our program for planned growth, the Engineered Products Group launched a new venture in the United States at Gulfport, Mississippi, for the manufacture of marine loading arms. This new division provides us with a strategic base in the U.S., and related markets, for marine arm sales. (Further details in Engineered Products Group.)

A major development which has added to the scope of our Plumbing and Industrial Group was the acquisition of all of the shares of Delta Faucet of Canada Limited. This subsidiary was launched as a joint Emco-Masco venture in Toronto to market Delta single-handle washerless faucets in Canada, with manufacturing support from our London Factory. This partnership with Masco Corporation started in 1960, long before they became a major Emco shareholder. (See Plumbing and Industrial Group Review.)

Outlook

Looking ahead into the coming months, we still see economic uncertainties around the world, but there are apparent signs of an improving business climate. Europe and Japan are climbing out of the trough, although England appears to be trailing. The United States is slowly recovering, and developments in the oil-producing export countries will likely revive industrial demand in the world markets.

In Canada, the Federal Government's Anti-Inflation Program could have a profound effect on business this year. While it may dampen the industrial growth rate, we fully support the wage and price control guidelines because inflation quite clearly is the major Canadian problem. Today, no country can maintain a healthy economy and achieve fuller employment rates while, at the same time, fueling the flames of double-digit inflation, or even the expectation of it.

Emco entered 1976 with a strong backlog of orders, and we are moving well towards our sales and earnings objectives. With increased operating capabilities, expanding product and distribution bases, and certainly an excellent team of people at all levels, we are fully confident of success through the year.

Acknowledgements

At the annual meeting held in May last year, Dr. J. Psarouthakis was elected to our Board of Directors. Dr. Psarouthakis is vice-president, international, of Masco Corporation, and his joining us has been a valuable asset to Emco.

We acknowledge Masco's support, and particularly applaud their role in the transfer of their ownership of Delta Faucet of Canada to Emco. Their agreement to this change amply demonstrates their firm commitment to the 'principles of significant benefits to Canada' as perceived in the Federal Government's Foreign Investment Review Act, and it also demonstrates their confidence in Emco's future.

We thank our employees around the world for their outstanding service, which, in this particularly difficult year, was a source of great strength to the company.

C. N. Chapman
President and
Chief Executive Officer

February 27, 1976

Review of Operations
PLUMBING AND INDUSTRIAL GROUP

Plumbing and Industrial Group

DIVISIONS

Emco Supply
Regional offices, Montreal, Toronto, Calgary; thirty-two branches across Canada distributing plumbing, heating and industrial piping supplies to mechanical contractors and industry.

Arnold's Cove	Ottawa
Barrie	Peterborough
Belleville	Prince George
Calgary	Quebec
Edmonton	Regina
Guelph	Saint John
Halifax	Saskatoon
Hull	Sault Ste. Marie
Kitchener	Sherbrooke
Lethbridge	St. Catharines
London	Sudbury
Medicine Hat	Terrace
Moncton	Toronto (Weston)
Montreal	Ville de Brossard
North Bay	Windsor
Oshawa	Winnipeg

General Manufacturing
– London Factory, London, Canada manufacturer of plumbing, heating and industrial piping products for sale to distributors.
– Emco Plastics Limited, Brampton, Ontario – manufacturer of plastic plumbing and piping components.
– Delta Faucet of Canada Limited, Bowmanville, Ontario – * manufacturer of Delta and Delex faucets.

Canadian Clyde Tube Forgings Limited
Toronto, Ontario – supplier of steel welding fittings for industry. Branches – Montreal, Vancouver, Edmonton.
*under construction

Housing activity in Canada showed a declining trend in the first nine months of the year, trailing 12% below the 1974 level. However, there was a sharp spurt in housing during the last quarter that pushed the number of starts for the year to 231,456, bettering the 1975 figure by 4% and resulting in a healthy 'carry-over' of 176,599 units into 1976.

Commercial, institutional and industrial construction remained relatively strong through the year. Engineering construction provided the greatest strength and produced a very substantial volume of sales for the Plumbing and Industrial Group.

General Manufacturing

A 27-week long strike in our London Factory created great hardships for our employees and customers and reduced Emco's market share.

Every effort is now being made to recapture lost ground and, hopefully, we shall make considerable headway in market penetration with the added advantages of our regional factory distribution system and new product offerings.

Our new factory warehouse in Lachine, near Montreal, went into operation in 1975 and greatly strengthened our national distribution network. This facility and the warehouses in Vancouver and Calgary are serviced by our Central Warehouse in Brampton, Ontario.

The baghouse at London Factory is part of a quarter-million dollar pollution control system in our foundry area. It removes smoke and dust through fabric filters, cutting drastically emissions into the atmosphere.

Injection molding at Emco Plastics in Brampton, Ontario.

Assembling copper pipe order at Emco Supply, Toronto

Adding thrust to our 1976 marketing program this year are new products and product refinements. One of the most important of these is a new patented joint connection for waterworks valves developed by our design engineers. This new product is revolutionary in concept and combines the best features of the compression and flare joints. The advantages of the product are easily demonstrable and we are confident of its success in the market.

Among improvements in physical facilities was the completion in March of a quarter million dollar pollution control system in our London foundry area. The last stage of this system, called the baghouse, has now been installed and will be soon commissioned.

The baghouse removes smoke and dust through fabric filters before it is released into the atmosphere. A network of ducting with hoods and fans draws the smoke and dust from the work area into the baghouse. The new system benefits our foundry employees as well as the neighbourhood by drastically reducing emissions in the plant and the atmosphere.

Our plastics plant in Brampton experienced drastic fluctuations in business through 1975. Starting on a peak, business dropped sharply at the beginning of the year and swung back just as sharply in July, creating a considerable back order situation.

We expect a general recovery in 1976 that will provide an even pattern of production throughout the year. In 1975, we received a large contract for mouldings from Masco Corporation. This will open the door to more business from our associate company.

Delta Faucet of Canada

Delta Faucet of Canada Limited has been acquired as a wholly-owned subsidiary of Emco. This move has expanded the scope of our Manufacturing Division and its impact on overall corporate performance will be important.

This subsidiary was launched in 1960 in Toronto as a joint Emco-Masco venture to market Delta single-handle washerless faucets with manufacturing support from our London Factory.

Concurrent with the change in ownership structure, which was formalized as of July 1, 1975, we announced a major manufacturing and marketing program for Delta Faucet of Canada in mid-January.

A new plant in Bowmanville, Ontario, now under construction, will go into production in May and will manufacture the well-known Delta faucets and a new line of two-handle washerless faucets called Delex. Other products will be added through the year.

Located on an $8\frac{1}{2}$-acre site in an industrial area, the plant will have a 43,000 sq. ft. floor area and, in its first phase, will employ 50 people.

The new product launch for the Delex line and the promotion program for the Delta line are the most extensive marketing operations that Emco has undertaken. The initial success has been most encouraging with ready acceptance of this unique product by the trade.

The marketing identities of Delta and Emco products are separate and will continue to be promoted as such.

Emco's "Corona" chromeplated ABS faucet in the new Holiday Inn City Centre Tower in London, Ontario.

Canadian Clyde Tube Forgings

CCTF, a wholly-owned Emco subsidiary, based in Toronto with branches in Edmonton, Montreal and Vancouver, experienced another year of growth.

In 1975, management changes were made to strengthen this subsidiary's organization structure and Mr. D. J. Hackett was appointed vice-president and general manager.

The industries served by this division include marine, mining, petrochemical, pulp, paper and other industries where piping is required. We expect CCTF to continue its leadership in the Canadian welding fitting market.

Supply Division

Although gross margins of the Supply Division were somewhat reduced, 1975 sales equalled the all-time sales record of 1974. This achievement is particularly noteworthy considering that Canadian construction activity, especially in housing, was at a low point for most of the year.

Inflation through the year and the 27-week long strike at London Factory affected the Supply Division's operations. However, compensatory measures and gains resulting from more effective market monitoring helped the division to swing 1975 into its second best profit year.

A pause in plant expansion during 1975 has paved the way for further growth this year. A major capital expenditure program for a new branch facility in Montreal is underway and plans are progressing for two new branches at Dryden, Ontario, and Corner Brook, Newfoundland. The new facility in Montreal will be the largest of its type in Canada.

An important appointment was the promotion of Mr. W. L. Douglas to vice-president, Emco Supply, Central Region. While continuing to be manager of the Toronto and Oshawa operations, he will be responsible for the overall management and development of the 13 supply branches in the Central Region. Mr. Douglas has been with the company for 39 years and has held several sales and management positions in Ontario.

Outlook

Housing starts in Canada are expected to reach between 240,000 units and 250,000 units in 1976. Single family housing will be marginally higher than in 1975. While rental apartment starts will decline, condominiums will move up, increasing their share of the new construction market.

Overall construction activity is likely to be around the 1975 level or slightly better. Commercial construction will stay at last year's level while industrial construction will probably show a slight increase. Institutional buildings are expected to decline.

The first half of the year will be relatively slow as the federal housing policy and the impact of wage and price controls are more clearly understood. Overall, 1976 is going to be a year of slow growth and not without problems. It is hoped that the construction industry will adhere to wage and price controls and thus provide a measure of stability to this industry. Such a commitment by labour and management will revive construction activity and contribute greatly to the gross national product.

Within this general scenario, the Plumbing and Industrial Group is confident of increasing its market share aided by new lines and products, new and improved production and support facilities, superior distribution network and generally a more aggressive marketing program. In all these areas, our strength in human resources has been most significant through the years and we believe this factor will continue to dominate through 1976.

Review of Operations

ENGINEERED PRODUCTS GROUP

Engineered Products Group

DIVISIONS

Research and Development Centre
Margate, England

Wheaton Australia Pty. Limited
Sydney, Australia

Emco Wheaton Industria E Commercio S.A. (80% owned)
Rio de Janeiro, Brazil

Emco Wheaton U.K. Limited
Margate, England

Emco Wheaton S.A.
Paris, France

Emco Wheaton GmbH (76% owned)
Kirchhain, West Germany

Emco Wheaton Inc. – Conneaut, Ohio and Gulfport, Mississippi, United States

Emco Wheaton (Japan), Limited
Yokohama, Japan

Emco-Wheaton Limited
Toronto, Canada;
Branches – Montreal, Calgary, Vancouver (Burnaby)

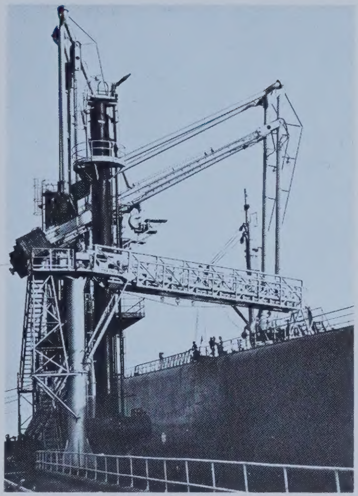
The Engineered Products Group manufactures and distributes engineered fluid handling equipment and systems used in the oil and petrochemical industries. These products, which are sold under the name Emco Wheaton, include: service station equipment, marine loading assemblies, storage tank equipment, swing joints, loaders and unloaders, tank truck equipment, hose end couplings, dry breaks and fleet refueling systems.

Major oil companies reduced capital spending in most parts of the world during 1975 and this affected the total volume of available business. However, group sales for the year were satisfactory and were up by 13% over 1974. This is largely attributed to increased activity in large marine arm installations. Net earnings for the group increased substantially over 1974.

Product Development

Group efforts continued in new product development and the analysis of new markets for our products. Our first marine arm bunkering unit was installed in Antwerp, Belgium, and now a second unit is nearing completion for installation in Australia. This new product was developed in 1974 by our Research and Development Centre in Margate, England, and is now being manufactured in our plant in Kirchhain, Germany.

Further development work is proceeding in vapor recovery systems conforming to U.S. emission control laws governing the transfer of vapors in gasoline distribution. Our new vapor recovery nozzle is now being manufactured. This product recovers vapors that are emitted when gasoline is transferred to the automobile. There would appear to be a very large market for this product. Along with environmental considerations, the growing awareness for conservation in Europe is expected to create a demand for similar recovery systems in this market in the near future.



Emco Wheaton U.K. supplied four B.4000 hydraulic marine arms to the Khor-Al-Amaya installation in Iraq.

Design for Growth

An important organizational change was made on January 1, 1976, with the appointment of Mr. A. R. Martin and Mr. R. F. Howard as vice-presidents within Emco Wheaton (International) Limited, the subsidiary responsible for management coordination and certain staff functions in the group.

Mr. Martin has assumed operating responsibilities for the Brazilian company and the new Marine Loading Arm Division in Gulfport, Mississippi, in addition to administrative responsibilities in certain areas. Mr. Howard was appointed vice-president for the European area and has operating responsibilities for the three divisions in that area, in addition to the responsibilities that he held as group marketing director.

These new positions are intended to improve the coordination of management activities for the achievement of established group objectives.

The performance of the individual operating divisions within the group is as follows:

North America

The relocation of the Toronto plant was completed during the year. Reduced spending by oil companies in Canada for our equipment resulted in reduced sales and earnings for this division during 1975 when compared to last year.

The financial results for the year for the U.S. division reflect the economic climate in this market but, while sales were satisfactory, operating profits were not, due to lower production levels and increased costs.

Production was started in December 1975 at the new Marine Loading Arm Division located in Gulfport, Mississippi. This division will operate as an autonomous operating unit to serve the growing market for marine loading and unloading equipment for use on the inland waterways and ocean installations throughout North America.
Pre-production costs were as expected and the first major order will be delivered during the first quarter of 1976.

Europe

Exports contributed considerably to the improvement in the net earnings of the U.K. division. At this time, there is a very good order book for export in 1976. However, the potential for sales within the U.K. continues to lag in step with the national economy.

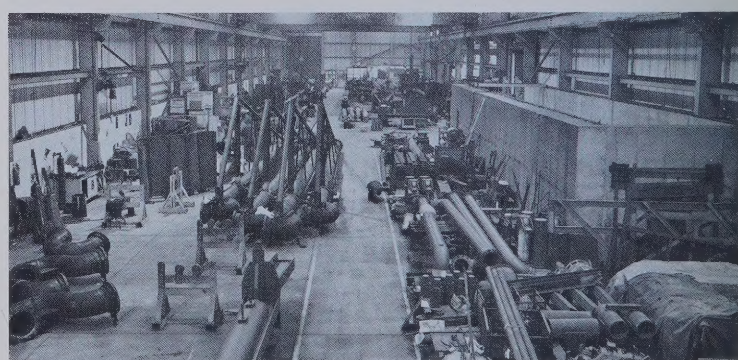
Our division in Germany has shown good improvements in sales and earnings. This division has made significant progress in export markets including Eastern Europe.

For the French division, sales increased over 1974 and there was a considerable improvement in earnings which was partly attributable to the increase in sales to industrial markets.

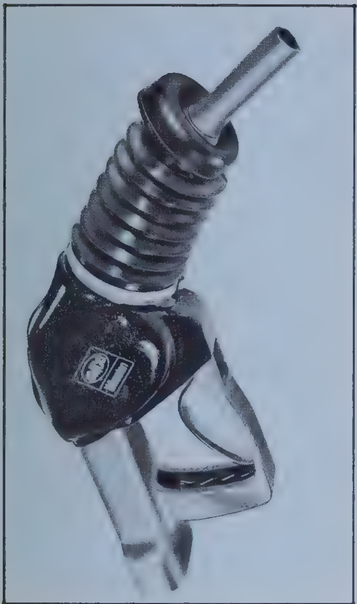
Far East and Australia

In Japan, spending by oil companies declined but our division turned in another satisfactory year. In 1975, exports were a much larger part of this division's business and this offset the reduction in their domestic market.

The new bunkering unit fueling a ship in Antwerp, Belgium. The bunkering arm, developed by our Research and Development Centre in Margate, England, is offered from our division in Germany.



A top end view of Emco Wheaton U.K.'s shop in Margate, England.



The new vapor recovery nozzle developed by Emco Wheaton Inc., in Conneaut, Ohio, U.S.A.

The Australian economy was affected by high inflation and other adverse factors but under new management our Australian company has gained strength in 1975, with satisfactory levels of sales and earnings. New products are being developed and should contribute to a satisfactory growth rate.

Brazil

Sales and earnings for 1975 were very satisfactory and additional gains are expected with the manufacture of new products in 1976. Our manufacturing program in Brazil is on schedule and the future is encouraging.

Outlook

The group's marketing activities are carried out in virtually all industrialized countries of the world. While the rates of economic recovery in these countries range from fair to good, there appears an overall resurgence in the oil industry. Barring political instability and unforeseen reverses in international trade, group sales and net earnings are expected to increase in 1976, notwithstanding present commitments for product development and capital expenditures.

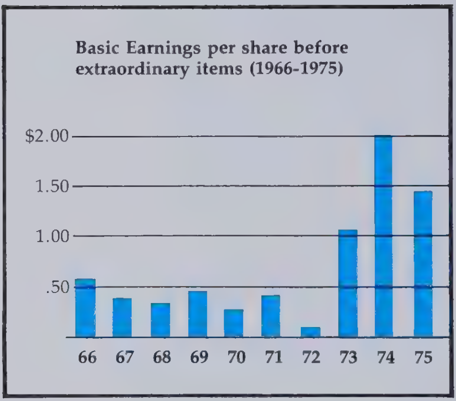
We are committed to meeting the current and evolving needs of our primary markets in the oil and chemical industries. We are continually reviewing technological and market trends to determine the changing needs. We are assessing the potential of new products and new markets and we are seeking to advance our position in the broad area covering equipment for the transfer and control of liquids and gases.

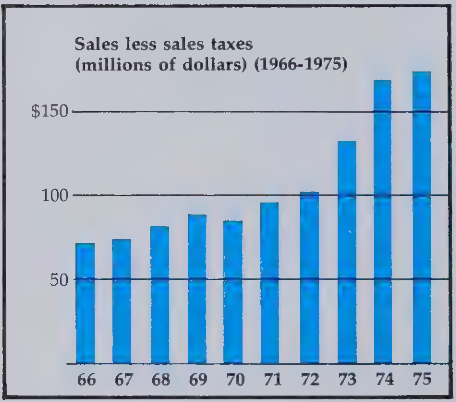
This is our broadly stated objective within which we have established specific sales and earnings growth objectives.

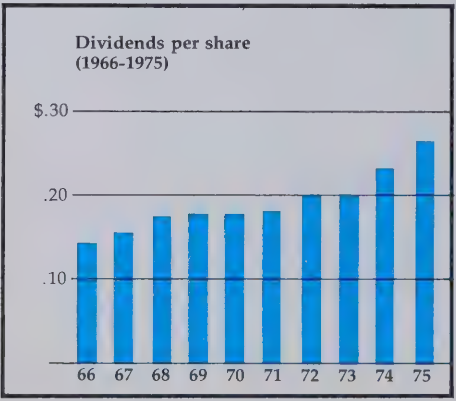
We have the physical resources and, most important, we have human resources in research, technical, manufacturing and management functions in all of our nine operating divisions and our Research and Development Centre.

Our divisions are autonomous profit centres with primary domestic and export markets and they are supported by group and corporate staff functions. Each division has defined objectives for sales, earnings and return on investment and we are confident that our people will achieve these objectives in 1976 and in the future.

Office and manufacturing facility of our new Marine Loading Arm Division in Gulfport, Mississippi, U.S.A.







Emco Limited and Subsidiaries

Ten Year Financial Summary

	1975
SALES, LESS SALES TAXES	$175,834
CHANGES IN FINANCIAL POSITION	
Funds provided:	
Funds provided from operations	$ 8,784
Increase in long-term debt	633
Issue of common shares:	
For cash	53
On conversion of 7% debentures	7
Proceeds on disposal of property and plant	55
Total funds provided	9,532
Funds used:	
Property, plant and equipment	4,096
Reduction in long-term debt	
7% debentures	8
Other	626
Redemption of second preference shares	—
Dividends on second preference shares	—
Dividends on common shares	1,265
Excess of purchase price of subsidiary companies acquired during the year over value of underlying net tangible assets	—
Other	(638)
Total funds used	5,357
Increase (decrease) in working capital	$ 4,175
Working capital at December 31	$ 35,579
COMMON SHARE RESULTS	
Basic earnings:	
Before extraordinary items	$ 1.45
Including extraordinary items	1.50
Fully diluted earnings:	
Before extraordinary items	1.39
Including extraordinary items	1.43
Book value at December 31	9.24
Dividends paid	.27
Return on shareholders' equity at January 1 (based on earnings before extraordinary items)	% 18.1

1974	1973	1972	1971	1970	1969	1968	1967	1966
172,550	130,329	100,542	95,926	83,810	89,380	83,399	74,325	72,331
10,310	5,032	1,673	2,774	2,267	4,439	2,509	2,513	2,727
—	280	—	6,000	5,000	—	—	3,867	—
—	—	—	41	91	2	33	88	87
4,890	—	34	—	—	—	—	—	—
152	1,049	427	—	24	60	169	—	294
15,352	6,361	2,134	8,815	7,382	4,501	2,711	6,468	3,108
3,054	2,984	2,594	1,791	939	1,768	1,928	2,402	2,006
5,776	—	34	—	—	—	—	—	—
555	81	123	1,543	3,605	638	258	948	561
—	—	—	—	442	239	297	357	298
—	—	—	—	7	17	25	35	45
998	756	756	723	689	687	686	623	554
—	75	214	—	—	—	—	1,115	—
(254)	(138)	17	201	231	26	(37)	466	(57)
10,129	3,758	3,738	4,258	5,913	3,375	3,157	5,946	3,407
5,223	2,603	(1,604)	4,557	1,469	1,126	(446)	522	(299)
31,404	26,181	23,578	25,182	20,625	19,156	18,030	18,476	17,954
2.00	1.07	.14	.45	.33	.47	.39	.43	.53
2.08	1.12	.17	.45	.33	.91	.39	.45	.58
1.91	.87	.14	.43	.33	.47	.39	.43	.53
1.97	.91	.17	.43	.33	.91	.39	.45	.58
8.02	6.10	5.20	5.27	5.02	4.88	4.15	3.88	3.91
.23	.20	.20	$.18^{3}/_{4}$	$.18^{1}/_{3}$	$.18^{1}/_{3}$	.18	$.16^{1}/_{4}$	$.14^{1}/_{2}$
32.0	20.5	2.7	8.9	6.7	11.3	10.0	11.0	15.1

NOTES:

Amounts shown above are thousands of dollars with the exception of data under the heading common share results. Common share results reflect the 3 for 1 subdivision effective July, 1971.

In 1974, basic earnings per share and return on shareholders' equity are calculated on the assumption that the 7% convertible debentures converted into common shares during the year were converted on Janaury 1, 1974.

Emco Limited and Subsidiaries

Consolidated Balance Sheet

December 31, 1975
with comparative figures for 1974

Assets	1975	1974
Current assets:		
Cash	$ 455,425	178,822
Marketable securities, at cost (quoted value $163,351; 1974, $147,995)	141,833	141,833
Trade accounts receivable, less allowance for doubtful accounts ($1,615,759; 1974, $1,546,701)	24,649,534	23,535,858
Inventories at the lower of cost or net realizable value	54,733,067	51,089,245
Prepaid expenses	973,051	714,666
Total current assets	80,952,910	75,660,424
Long-term receivables	72,207	100,547
Investment in partially owned company, at equity (note 1)	—	247,000
Property, plant and equipment, at cost less depreciation (note 2)	17,225,099	14,617,003
Unamortized debt discount and expense (note 1)	176,812	193,052
Deferred income taxes	—	108,294
	$98,427,028	90,926,320

Liabilities	1975	1974
Current liabilities:		
Bank indebtedness	$26,986,591	16,086,072
Notes payable	53,367	5,151,876
Accounts payable and accrued expenses	14,068,758	15,142,018
Dividends payable	332,445	270,835
Current portion of long-term debt	320,649	301,633
Income and other taxes payable	3,611,873	7,303,845
Total current liabilities	45,373,683	44,256,279
Deferred:		
Exchange translation gains (note 1)	244,641	203,474
Income taxes	677,669	—
	922,310	203,474
Long-term debt (note 3)	10,098,688	10,100,237
Minority interest in subsidiary companies	220,966	143,591
Shareholders' equity:		
Capital stock, common shares (note 4)	5,525,700	5,464,620
Retained earnings	36,285,681	30,758,119
Total shareholders' equity	41,811,381	36,222,739
	$98,427,028	90,926,320

See accompanying notes to consolidated financial statements.

On behalf of the Board: **C. N. Chapman,** Director
J. W. Adams, Director

Emco Limited and Subsidiaries
Consolidated Statement of Earnings
Year ended December 31, 1975
with comparative figures for 1974

	1975	1974
Sales, less sales taxes:		
Plumbing and Industrial Group	$148,694,320	148,724,659
Engineered Products Group	27,139,819	23,824,876
	$175,834,139	172,549,535
Operating profit after minority shareholders' interest but before the undernoted items	$ 18,227,799	23,090,539
Investment income	9,460	9,938
Equity in earnings of partially owned company (note 1)	20,600	49,000
	18,257,859	23,149,477
Deduct:		
Depreciation	1,456,764	1,393,527
Interest on bank and other short-term advances	2,661,217	2,245,662
Interest on long-term debt	855,461	1,074,751
Earnings before taxes on income	13,284,417	18,435,537
Taxes on income (note 1):		
Current	6,178,000	9,820,000
Deferred	542,000	(324,000)
	6,720,000	9,496,000
Earnings before extraordinary items	6,564,417	8,939,537
Extraordinary items	228,000	321,000
Net earnings	$ 6,792,417	9,260,537
Earnings per common share (note 5):		
Basic:		
Before extraordinary items	$ 1.45	2.00
Extraordinary items	.05	.08
Including extraordinary items	$ 1.50	2.08
Fully diluted:		
Before extraordinary items	$ 1.39	1.91
Extraordinary items	.04	.06
Including extraordinary items	$ 1.43	1.97

See accompanying notes to consolidated financial statements.

Emco Limited and Subsidiaries

Consolidated Statement of Retained Earnings

Year ended December 31, 1975
with comparative figures for 1974

	1975	1974
Amount at beginning of year	**$30,758,119**	22,495,045
Add net earnings	**6,792,417**	9,260,537
	37,550,536	31,755,582
Deduct dividends on common shares	**1,264,855**	997,463
Amount at end of year	**$36,285,681**	30,758,119

See accompanying notes to consolidated financial statements.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Emco Limited and subsidiaries as of December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the consolidated financial position of the company and subsidiaries at December 31, 1975 and the consolidated results of operations and changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

London, Ontario
February 13, 1976

Emco Limited and Subsidiaries

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1975
with comparative figures for 1974

	1975	1974
Funds provided:		
Funds provided from operations	$ 8,783,539	10,310,207
Issue of common shares:		
Conversion of 7% debentures	7,687	4,890,500
Exercise of options	53,393	—
Assumption of mortgages	632,771	—
Proceeds on disposal of property and plant	54,702	151,550
Other	638,158	302,908
Total funds provided	10,170,250	15,655,165
Funds used:		
Property, plant and equipment	4,095,993	3,053,869
Reduction in long-term debt:		
7% debentures	8,000	5,776,000
Other	626,320	555,494
Dividends on common shares	1,264,855	997,463
Other	—	49,000
Total funds used	5,995,168	10,431,826
Increase in working capital	$ 4,175,082	5,223,339
Working capital at end of year	$35,579,227	31,404,145

See accompanying notes to consolidated financial statements.

EMCO

Emco Limited and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 1975

(1) Accounting policies:

Principles of consolidation: The accompanying financial statements consolidate the accounts of all subsidiary companies. All material intercompany balances and transactions have been eliminated.

During 1975, the Company acquired the remaining shares in a previously partially owned company, so that, effective from June 30, 1975 the company became wholly-owned. This acquisition has been accounted for by the purchase method and results of operations have been included from the date of acquisition. Book values at date of acquisition are considered by management to be equivalent to fair values. A summary of the 1975 acquisition is as follows:

Working capital	$261,728
Property, plant and equipment	14,272
Consideration, paid in cash	$276,000

Foreign currency transactions: The accounts of the subsidiary companies located outside Canada have been translated to Canadian dollars as follows: current assets, current liabilities and long-term debt – at rates current at the year end; fixed assets – at rates current on dates of acquisition; accumulated depreciation and related provisions against income – on the basis of dollar value of related assets; and operating income and other expenses – at average rates for the year. Gains resulting from such translation practices are deferred and losses in excess of previously deferred gains, accounted for by country, are charged to earnings. Translation losses charged to earnings in 1975 amounted to approximately $245,000 and were insignificant in 1974.

The investment in consolidated net assets at December 31, 1975 was geographically distributed approximately as follows:

Canada and United States	$35,494,000
Europe	4,254,000
Japan and Australia	1,429,000
Brazil	634,000

Depreciation: Depreciation is generally provided on a straight line basis over the estimated useful lives of the assets. Depreciation rates are as follows: buildings 2.5% and 5%; roadways 10%; machinery and equipment 10% and 20%.

Amortization: The unamortized debt discount and expense relating to the $9^3/_4$% sinking fund debentures is being amortized over the term of the debentures using a sum of the digits method.

Research and development expenses: Costs associated with research and development of new products and improvements to existing products are expensed as incurred.

Taxes on income: The tax allocation basis of accounting for taxes on income is followed.

Certain subsidiaries suffered operating losses during the year which did not result in complete recovery of income taxes. The potential income tax benefits associated with such operating losses and with the operating losses of certain subsidiaries in prior years are not recognized in the accounts. These operating losses, which aggregate approximately $1,299,000 are available to reduce taxable income which might otherwise be reported in certain future years. The availability of these losses for that purpose expires as to $557,000 in 1977; $17,000 in 1978; $209,000 in 1979; $421,000 in 1980 and $95,000 in 1981.

In addition, there are unused investment and foreign tax credits amounting to approximately $51,000 which are available for future deduction.

(2) Property, plant and equipment:

	1975	1974
Buildings and roadways	**$14,402,051**	12,678,055
Machinery and equipment	**13,424,339**	12,521,749
	27,826,390	25,199,804
Less accumulated depreciation	**13,871,952**	12,611,040
	13,954,438	12,588,764
Land	**3,270,661**	2,028,239
	$17,225,099	14,617,003

(3) Long-term debt:

	1975	1974
Emco Limited:		
$5^3/_4$% sinking fund debentures, due June 15, 1985	**$ 4,357,000**	4,592,000
$9^3/_4$% sinking fund debentures, due July 15, 1990	**4,915,000**	4,987,000
7% convertible sinking fund debentures, due August 1, 1991	**181,000**	189,000
8% mortgage due September 1, 1975	**—**	279,708
Subsidiary Companies:		
6% mortgage note payable in monthly instalments of principal and interest of $3,583 U.S., due August 1, 1980 (U.S. $335,491)	**340,758**	354,162
9% mortgage payable as to $202,244 on March 10, 1976 and $202,243 on March 10, 1977	**404,487**	—
9% mortgage payable in monthly instalments of principal and interest of $2,311, due October 1, 1989	**221,092**	—
	10,419,337	10,401,870
Less amounts due within one year included with current liabilities	**320,649**	301,633
	$10,098,688	10,100,237

Long-term debt falling due or to be met out of sinking fund payments in the five years ending December 31, 1980, after taking into account the principal amount of debentures repurchased by the company which have been tendered to the trustee in respect of future sinking fund payments, aggregates $320,649 in 1976; $535,000 in 1977; $447,000 in 1978; $465,000 in 1979 and $485,000 in 1980.

(4) Capital stock:

Authorized, issued and outstanding:

	Number of Shares		
		Issued and Outstanding	
	Authorized	1975	1974
First preference shares with a par value of $100 each	150,000	—	—
3% cumulative redeemable second preference shares with a par value of $10 each	61,600	—	—
Common shares without par value	12,000,000	**4,525,729**	4,513,913

During 1975, 10,800 common shares were issued for a cash consideration of $53,393 on the exercise of options and 1,016 common shares were issued on conversion of $8,000 principal amount of 7% convertible sinking fund debentures. The value assigned to the 1,016 common shares, after deduction of the related debenture discount, net of income taxes applicable thereto, was $7,687.

Share options: At December 31, 1975, 174,225 common shares had been reserved for issuance under share option plans for certain key executives. Options expiring in 1977 on 4,125 common shares were outstanding at $5.066.

Share purchase plan: During 1968, a share purchase plan was approved whereby the employees of the company and its subsidiaries (excluding officers and directors of Emco Limited) may purchase common shares of the company. As at December 31, 1975, there were 128,145 shares available for future subscriptions. There were no transactions during 1975.

Dividend restrictions: The trust deeds relating to the debentures each contain provisions whereby dividends may not be declared or paid, other than stock dividends, and the company may not effect any reduction to its capital stock which would reduce net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1975, the net current assets and shareholders' equity (as so defined) were substantially in excess of minimum levels. Particulars as to a further dividend restriction are set out in note 8.

Conversion privilege: The 7% convertible sinking fund debentures are convertible into common shares without par value in the capital of the company at any time prior to the close of business on August 1, 1977, on the basis of 127 common shares for each $1,000 principal amount of debentures; and thereafter and at any time prior to the close of business on August 1, 1980, on the basis of 112 common shares for each $1,000 principal amount of debentures.

There were 253,600 common share purchase warrants outstanding at December 31, 1975 entitling the holder to purchase one new common share for each warrant held. The warrants expire on August 1, 1980 and the exercise price for each warrant is $7.87 to August 1, 1977 and $8.93 thereafter.

The company has covenanted to reserve a sufficient number of common shares to be available for conversion of the 7% debentures and for issue upon exercise of the common share purchase warrants.

(5) Earnings per share:

Earnings per share are calculated using the weighted daily average number of shares outstanding.

Fully diluted earnings per share are calculated on the assumption that all options, warrants and conversion privileges outstanding at the end of the year were exercised at the beginning of the year; and that funds derived therefrom had been used to reduce bank indebtedness and related interest costs. The interest deducted less related income taxes was $95,189 (1974 - $110,751).

(6) Directors and senior officers remuneration:

The aggregate direct remuneration paid or payable by the company to directors and senior officers was $680,000 for the year ended December 31, 1975 (1974 – $683,000).

(7) Pension costs:

The company has no significant liability for past services under its pension plans.

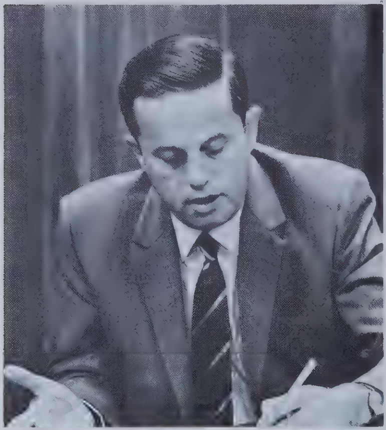
(8) Anti-Inflation Act:

The company and certain of its Canadian subsidiaries are subject to the Anti-Inflation Act which provides, as from October 14, 1975, for restraint on profit margins, compensation to employees and dividends to shareholders. Under this act, dividends on common shares of the company for the twelve months to October 13, 1976 cannot exceed $2,315,000.

Officers

RICHARD A. MANOOGIAN
Chairman of the Board

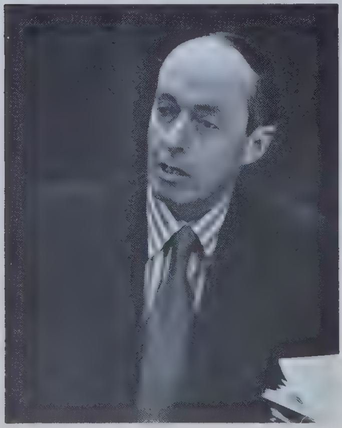
C. NORMAN CHAPMAN
President,
Chief Executive Officer



JOHN W. ADAMS, F.C.A.
Executive Vice-President
and Treasurer

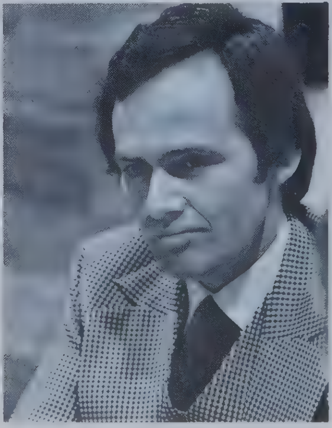
JOHN G. BERESFORD
Vice-President,
Engineered Products Group

RALPH S. MacLEAN
Vice-President, Plumbing
and Industrial Group



STUART F. SMITH
Vice-President,
General Manufacturing Division

A. ROBERT MARTIN, F.C.A.
Secretary and Vice-President,
Emco Wheaton (International) Limited



W. WESLEY DeSHANE, C.A.
Comptroller and
Assistant Secretary

Description of Business

Emco's operations consist of two major product groups: the Plumbing and Industrial Group and the Engineered Products Group. The common denominator is the technology in the control of anything that flows.

Plumbing and Industrial Group

From the four plants and 32 branches across Canada that make up the Plumbing and Industrial Group emerge more than 10,000 different plumbing and heating products ranging from relatively simple faucets to industrial components made to rigid specifications. The Supply operation of this group with a coast-to-coast network distributes products made by Emco and its subsidiary companies. In addition, it also handles complementary product lines made by other manufacturers.

Engineered Products Group

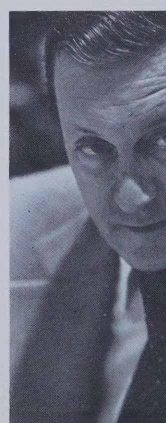
The Engineered Products Group manufactures and distributes highly engineered fluid handling equipment used in oil and petrochemical industries around the world. The products, offered under the Emco Wheaton name, range from service station nozzles and fleet fueling systems to tank truck loading assemblies, marine loading arms and bunkering units to vapor recovery systems. These Emco Wheaton products reach world markets through plants in England, France, Germany, Japan, Australia, Brazil, the U.S.A. and Canada. Supporting the manufacturing operations is a Research and Development Centre at Margate in England.

Officers

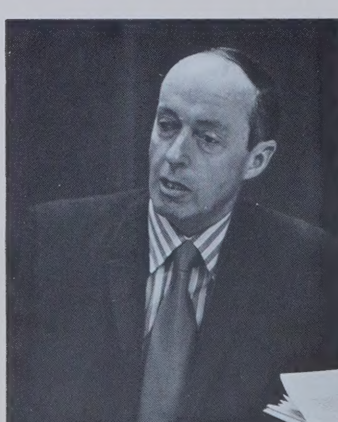
RICHARD A. MANOOGIAN
Chairman of the Board

C. NORMAN CHA
President,
Chief Executive Offi

JOHN W. ADAMS, F.C.A.
Executive Vice-President
and Treasurer



JOHN G. BERE
Vice-President,
Engineered Prod



STUART F. SMITH
Vice-President,
General Manufacturing Division

A. ROBERT MART
Secretary and Vice-P
Emco Wheaton (Inte

Transfer Agents and Registrars
Royal Trust Company
Toronto, Montreal and Winnipeg
($5^3/_4$% debentures);
Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver
(7% convertible debentures, common shares and common share purchase warrants)
The Canada Trust Company
Toronto, Montreal and Winnipeg
($9^3/_4$% debentures)

Auditors
Peat, Marwick, Mitchell & Co.
London, Canada

Emco Limited
Box 5300, London, Canada N6A 4N7

Subsidiaries in
Australia
Brazil
Canada
France
Great Britain
Japan
United States
West Germany